Transforming client lifecycle management with the LEI

GLEIF Webinar

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Agenda

1. GLEIF and the LEI
2. Current and future use cases of the LEI
3. Legal entity identification today and promise of the LEI
4. GLEIF’s call for action for further engagement
1. GLEIF and the LEI
Who is Global Legal Entity Identifier Foundation (GLEIF)

- GLEIF is a not-for-profit Swiss foundation, founded by the Financial Stability Board (FSB).

- GLEIF is overseen by 71 regulators and 19 observers in the Regulatory Oversight Committee (LEI ROC) from 50 countries.

- GLEIF Board has 18 independent directors.
Who is GLEIF

GLEIF in Numbers
Budget 2019
11.2 M US$

GLEIF in Numbers
Partners for LEI issuing (LOUs)
34, and growing

GLEIF in Numbers
Number of employees
44 from 24 countries

GLEIF in Numbers
Issued LEIs at end 2019
Over 1,570,000
In 2011, the G-20 leaders supported "the creation of a global legal entity identifier (LEI) which uniquely identifies parties to financial transactions."

The LEI Regulatory Oversight Committee (ROC) is a group of 71 member and 19 observer public authorities from 50 countries established in January 2013 to oversee a worldwide framework of legal entity identification, the Global LEI System.

https://www.leiroc.org
Global LEI System (GLEIS): Partners and Beneficiaries

Access by Master Agreement

- GLEIF
- LOUs
- Registrants

Access by Terms of Use

- Public sector
- Financial institutions
- Industry
- Supply-Chain
- Private individuals
- Researcher
- Others

Access by Individual Agreement

- Data Vendors
- Technical Facilitators
- Outsourcing Partners
The Legal Entity Identifier (LEI)

LEI is the linchpin that connects the dots across the universe of entity identification in the digital age

- 20-digit, alpha-numeric code based on the ISO 17442 standard developed by the ISO

Connections to key reference information that enables clear and unique identification of legal entities participating in financial transactions
Information Available with the LEI:
Data on ‘Who owns Whom’

- Following information on ‘who is who’, the LEI data pool is enhanced to include information on ‘who owns whom’.

- This allows the identification of direct and ultimate parents of a legal entity and, vice versa, so that the entities owned by individual companies can be researched.
Demo: LEI Search 2.0

Example

Nestlé S.A.

LEI Code KY37UL27QQX7893L28

(Primary) Legal Name

Nestlé S.A.

Transliterated Names

Nestlé S.A.

Registered At

Commercial Register (Ministry of Justice) Handelsregister (Kantonsgericht für das Handelsregister Zürich, Switzerland)

RA000549

Registered As

CHE-185.909.135

Jurisdiction Of Formation

CH

Entity Legal Form

Aktiengesellschaft

MVII

Entity Status

ACTIVE

BIC Code

NIESNC229XX

Sections

Empty fields

Entity details

Addresses

LEI registration details

LGU details

Ultimate children (110)

Maggi Unternehmungen AG (Ultimate)
Nestlé Marcas S.A.C (Ultimate)
Galthera Nordic AB (Ultimate)
Société Chocolats Roche (Ultimate)
CPM Brasil Ltda. (Ultimate)
Chocolates Gerbier SA (Ultimate)
Nestlé Waters Brasil - Bebidas E Alimentos Ltda. (Ultimate)
Nestlé Nordeste Alimentos E Bebidas Ltda. (Ultimate)
Nestlé Brasil Ltda. (Ultimate)
Nestlé de Colombia S.A. (Ultimate)
Nestlé Middle East FZE (Ultimate)
Nestlé Dubai Manufacturing L.L.C. (Ultimate)
Nestlé Middle East Manufacturing LLC (Ultimate)
Nestlé Lenska PLC (Ultimate)
Fondation Nestlé pour l'étude des problèmes de l'alimentation dans le monde (Ultimate)
Nestlé (Thailand) Limited (Ultimate)
2. Current and future use cases of the LEI
Global Regulatory Framework for the LEI

Primary use case: Trade reporting

**European Union**
- MifID II, MMF Regulation, Solvency II, AIFMD, Market Abuse Regulation, CSD Regulation, Prospectus Regulation, Securitization Regulation,
- SFTR (starting from Apr. 2020)
- EBA Recommendation, Credit Rating Agencies Regulation

**Canada**
- Equity and debt securities reporting (starting from Oct. 2019)

**United States**
- Home Mortgage Disclosure reporting
- Repo Market participants
- Swap data reporting
- Funds and investment firms reporting

**Mexico**
- OTC Derivatives and repo market participants

**Singapore, Hong Kong**
- OTC Derivatives market participants

**China**
- China Customs requires LEI for imports from 29 countries

**India**
- OTC Derivatives market participants, corporate borrowers, non-derivative market participants

**Australia**
- OTC Derivatives market (starting from Sep. 2019)

**Canada**
- United States
- Mexico
- Singapore, Hong Kong
- China
- India
- Australia
# LEI’s current and future use cases

<table>
<thead>
<tr>
<th>Market Segments</th>
<th>Key Markets</th>
<th>Status LEI Adoption</th>
<th>Market size (cumulative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Derivatives</td>
<td>USA &amp; Europe, Singapore</td>
<td>Financial markets Regulations and ROC policies widely adopted by national competent authorities</td>
<td>500,000 LEIs</td>
</tr>
<tr>
<td>2 Capital and Money</td>
<td>Prospectus Directive Europe, MiFID/MiFIR and Solvency II, Cooperation with the 30 G-SIBs</td>
<td>Financial transactions Active engagement with financial organizations that are responsible for KYC and KYS compliance and supply chain organizations like GS1 and ICC Support from Development Banks</td>
<td>1.5 – 2.5 million LEIs</td>
</tr>
<tr>
<td>3 Banking Services</td>
<td>LEI in payments (correspondent banking), LEI in credits (AnaCredit, USA mortgage act), LEI in trade finance</td>
<td></td>
<td>40 – 50 million LEIs</td>
</tr>
<tr>
<td>4 Supply-Chain-Managemet</td>
<td>Global reach on manufacturer, supplier, logistics and merchants supporting their Know Your Customer (KYC) and Know Your Supplier (KYS), All industries and cooperation with partners like GS1 and ICC</td>
<td></td>
<td>50 – 60 million LEIs</td>
</tr>
<tr>
<td>5 Digital Economy</td>
<td>Global reach for all entities requiring a digital identity of legal entities for their transactions Includes Industry 4.0 and Internet of Things</td>
<td>Digital transactions Adoption by certificate authorities and Blockchain vendors is accelerating</td>
<td></td>
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</table>
Industry support for the LEI

- **Payment Market Practice Group** highlights that now is the time for the payment industry to begin its adoption of the LEI with ISO 20022 migration. The LEI can:
  - bring greater speed in processing time,
  - be a data connector among diverse range of datasets and support the use of AI for financial crime compliance.
  - support authentication by unambiguously linking a digital certificate with a given legal entity.

- **International Finance Corporation (IFC)** of World Bank emphasized that respondent banks might consider adopting LEIs in order to improve its KYC profile to correspondent bank.

- **Asian Development Bank** has invited corporates and banks to introduce the LEI into their processes related to trade finance.
LEI in the Digital World
Effort 1: Incorporation of the LEI in Digital Certificates

- Combine the strengths of the LEI and digital certificates.
- In GLEIF 2018 Annual Report, eIDAS compliant certificates, for the first time, connect the role of the signatory to an organization through the LEI.

Watch how it works:
https://youtu.be/w4muYdN1Q-Q
LEI in the Digital World

Effort 2: Use of the LEI in Verifiable Credentials (VCs)

- POCs leverage the use of the LEI in digital Verifiable Credentials (VCs).
- This technique works for automated issuance and verification of organizations having LEIs and using LEIs.
- GLEIF has conducted POCs that produce VCs, prove identity (based on the LEI) cryptographically, and are recorded on a distributed ledger (blockchain).
- The POCs allow verification of identity of both legal entities having LEIs and for persons in their official roles within these legal entities.
- GLEIF has completed two POCs, one in Europe and one in the United States with participation of a regulator and a financial institution.
3. Legal entity identification today
Entity identification – How it is done today*

Businesses use on average 4 identifiers.

6–7 Weeks needed to onboard a new client on average.

57% of businesses worried about the “reliability of reference data” of their counterparty.

Negative impact of different identifiers:
- Inconsistent information
- Lack of transparency/certainty
- Drain on resources
- Data is proprietary, siloed, non-standardized

*All data is sourced from GLEIF research paper entitled: “A New Future for Legal Entity Identification”, May 2018. The research surveyed 102 senior salespeople in the banking sector in the UK, US and Germany.
Four pain points in legal entity client identification

- The major counterparty identification and verification pain points discovered through McKinsey interviews are:

  Percent of interviewees that mentioned, % (N=36)

<table>
<thead>
<tr>
<th>Pain Point</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>1. Manual linkage of entity data from disparate sources</td>
<td>64%</td>
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<tr>
<td>2. Difficulty assessing entity legal ownership structure</td>
<td>58%</td>
</tr>
<tr>
<td>3. Limited transparency into key officers</td>
<td>22%</td>
</tr>
<tr>
<td>4. Poor client experience due to multiple back-and-forth gathering data</td>
<td>17%</td>
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Ways to improve entity identification – The potential role of the Legal Entity Identifier (LEI)

The LEI creates a bridge linking the multiple ID systems on a global scale

Can be an “Esperanto” complementing & linking existing identification systems

Unique source of transparency and trust – with new use cases in digital age (ex. digital certificates)

Benefits of the LEI

- Very high data quality – annually renewed
- Global ISO standard
- Connected to other identifiers (BIC, ISIN)
- Provides the only global free source of data on entities identity
GLEIS 2.0: Improved Productivity / Onboarding Efficiency Gains
Banking sector alone

U.S.$40 billion → 5-10% cost reduction

-7% reduction in onboarding time:
Gains from reducing duplicative data entries and improving data access across internal systems

14% reduction in client onboarding time:
Gains from reducing manual data lookups and enabling straight through processing across external data sources

What does the LEI offer?

The LEI supports business activities at all stages of the client lifecycle management use case, including:

- Onboarding
- Know Your Customer refresh
- Transacting & billing
- Compliance reporting
- Risk monitoring
How does the LEI facilitate client lifecycle management?

The study found that many banks try to resolve these problems by implementing various technical solutions, increasing headcount, or just accepting longer cycle times. Since none of these methods fully resolves any of these pain points, many banking interviewees responded enthusiastically to the idea of using LEIs to identify and verify counterparties.
4. GLEIF’s call for action for further engagement
GLEIF proposal to incorporate banks into the GLEIS 2.0
Bank as Validation Agent partner of LEI issuers

Bank as “Validation Agent” - Responsibilities

- Check if the client has an LEI
- If not, verify and validate the following in the account opening process:
  - Legal name
  - Authorized signatory
  - Business registry information
  - Headquarter address
  - Legal address
  - Branch
  - Direct and ultimate parents
- Partner and interface with one or more LOUs to issue the LEI for the legal entity based on ISO 17742 standard

Research result:
To a large extend, these validation tasks overlap with the ones banks perform today
**Call to Action: Opportunities for pilot program engagement**
Avoid duplicate efforts in entity identification in today’s setting

**GLEIS 2.0**

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<tr>
<th>LEI Issuing Organization only</th>
<th>LOU &amp; Bank intersection for entity identification</th>
<th>Bank only</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Perform Check for Duplicates</td>
<td>- Verify &amp; validate the legal name, legal &amp; headquarter address, etc. through an authoritative source</td>
<td>- Review sanction lists, OFAC lists</td>
</tr>
<tr>
<td>- Issue LEI compliant with ISO standard 17742</td>
<td>- Check consolidated financial statements and verify if it has parent entities/subsidiaries</td>
<td>- Obtaining and reporting of ultimate beneficial ownership information</td>
</tr>
<tr>
<td>- Manage challenges</td>
<td>- Verify the authorized signatory applying on behalf of the legal entity</td>
<td>- Providing industry classification and sectoral information that the legal entity operates in</td>
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<tr>
<td>- Publish LEI records daily to GLEIF</td>
<td></td>
<td>- Any other internal collection of data beyond elements defined in the LEI-CDF and LEI-RR schemas</td>
</tr>
</tbody>
</table>
Adopting the LEI widely
Benefits for participating banks

- Customer satisfaction
- Compliance
- Faster on-boarding
- Cost reduction
Banks as Validation Agent – Privacy and Banking Secrecy
Will the identity of the Validation Agent be exposed?

- No Bank information will appear on the LEI record
- The LEI will appear exactly as it does today
- The managing LOU field will be populated with the Prefix of the LOU with which the Bank partners
- No information appears about the "Validation Agent" Bank in the LEI record or anywhere in the GLEIF records
- The GLEIF will not be able to determine if an LEI is validated by the Bank or by the LOU
GLEIS 2.0: Call to Action
GLEIF looks for volunteer banks for pilot project engagement

Estimated timeframe for pilot: **4 to 6 months**
depending on the number of banking clients targeted.
Join GLEIF’s Globally Important Financial Institutions (GIFI) Relationship Group

- GLEIF’s GIFI Relationship Group aims
  - financial institutions to express their views on GLEIF’s existing LEI services or the developments of LEI services.
  - to promote the LEI and related use cases.
  - to make it possible for GLEIF to understand the requirements of financial institution users of LEI data.

- Joining the GLEIF GIFI Relationship Group is without any costs.

- Interested or have questions? Send an email to us:
  
  Clare.Rowley@gleif.org
  Burcu.Mentesoglu@gleif.org
Limitations

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